

**KALAMAZOO AREA TRANSPORTATION STUDY**  
**Kalamazoo, Michigan**

**Financial Statements**  
**September 30, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name KALAMAZOO AREA TRANSPORTATION S	County KALAMAZOO
Fiscal Year End 09/30/06	Opinion Date 11/22/06	Date Audit Report Submitted to State 02/08/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

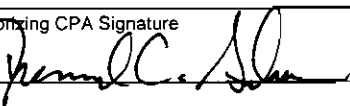
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**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None Issued	
Certified Public Accountant (Firm Name) GARDNER, PROVENZANO, SCHAUMAN & THOMAS, PC		Telephone Number 989-790-3900	
Street Address 4855 STATE STREET		City SAGINAW	State MI
Zip 48608		License Number 3200-86465R	
Authorizing CPA Signature 		Printed Name FREDERICK C. GARDNER, CPA	

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# Gardner | Provenzano Schauman & Thomas

**CERTIFIED PUBLIC ACCOUNTANTS**

Frederick C. Gardner  
Giacomo Provenzano  
James R. Schauman  
Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

November 22, 2006

To The Policy Committee  
Kalamazoo Area Transportation Study  
Kalamazoo, Michigan

We have audited the accompanying financial statements of the business type activities of the Kalamazoo Area Transportation Study as of and for the years ended September 30, 2006 and 2005, which comprise the organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kalamazoo Area Transportation Study's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

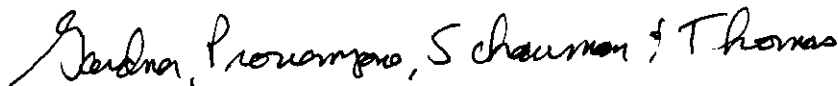
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Kalamazoo Area Transportation Study as of September 30, 2006 and 2005, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

To The Policy Committee  
Kalamazoo Area Transportation Study  
Kalamazoo, Michigan  
November 22, 2006  
Page Two

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2006, on our consideration of the Kalamazoo Area Transportation Study's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules included on pages 15 through 19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as whole.



Certified Public Accountants

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

KALAMAZOO AREA TRANSPORTATION STUDY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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**I. General Description of Basic Financial Statements**

The Kalamazoo Area Transportation Study (KATS) is the Metropolitan Planning Organization (MPO) for Kalamazoo County. As the MPO, KATS prepares a 20 year Transportation Plan, a Transportation Improvement Program, and assigns federal surface transportation program funds available to Kalamazoo County to various eligible road and public transportation projects. Funding for KATS is provided for on a reimbursement basis of expenses incurred on its programs. Other local agencies match a certain amount to complete the program by contributing in-kind effort. A policy committee that consists of several representatives from local governmental agencies governs KATS.

For accounting purposes, KATS uses only one fund. The fund is a business type enterprise fund that applies the full accrual basis of accounting. Hence, unlike most governmental units, KATS reports its financial information only in the full accrual format. The audited financial activities of KATS are presented herein. These statements include:

Statements of Fund Net Assets  
Statements of Revenues, Expenses, and Changes in Fund Net Assets  
Statements of Cash Flows

Along with the financial statements are the footnote disclosures and supplementary information.

**II. Condensed Financial Statements and Analysis and Discussion of Significant Transactions**

Table One – Net Assets

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets	\$ 284,067	\$ 198,724
Capital assets	580	2,575
Total Assets	<u>\$ 284,647</u>	<u>\$ 201,299</u>
LIABILITIES		
Current liabilities	<u>\$ 168,359</u>	<u>\$ 81,625</u>
Total Liabilities	<u>\$ 168,359</u>	<u>\$ 81,625</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 580	\$ 2,575
Unrestricted	<u>115,708</u>	<u>117,099</u>
Total Net Assets	<u>\$ 116,288</u>	<u>\$ 119,674</u>

KALAMAZOO AREA TRANSPORTATION STUDY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**II. Condensed Financial Statements and Analysis and Discussion of Significant Transactions (cont.)**

Table Two – Changes in Net Assets

	<u>2006</u>	<u>2005</u>
REVENUES		
Federal and State grants	\$ 283,940	\$ 203,556
Local unit contributions (in-kind)	180,977	212,466
Interest income and other	5,171	15,855
Total Revenues	<u>470,088</u>	<u>431,877</u>
EXPENSES		
Reimbursed program expenses	283,941	216,036
Contributed effort (in-kind)	180,977	212,466
Other	8,556	6,505
Total Expenses	<u>473,474</u>	<u>435,007</u>
Change in Net Assets	<u>\$ (3,386)</u>	<u>\$ (3,130)</u>

Table Three – Cash Flows

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,386)	\$ (3,130)
Adjustments to reconcile change in net assets to net cash provided by activities		
Depreciation	1,995	3,603
(Increase) decrease in:		
Current assets	(12,579)	44,774
Decrease (increase) in:		
Current liabilities	86,734	(11,418)
Net Cash Provided (Used) By Operating Activities	<u>72,764</u>	<u>33,829</u>
Cash (due from KCRC), beginning of year	131,105	97,276
Cash (due from KCRC), end of year	<u>\$ 203,869</u>	<u>\$ 131,105</u>

Current assets and current liabilities were higher than last year due to KATS receiving \$82,540 for a route study on behalf of City of Kalamazoo Metro Transit that was not disbursed until October 2006.



KALAMAZOO AREA TRANSPORTATION STUDY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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**II. Condensed Financial Statements and Analysis and Discussion of Significant Transactions (cont.)**

Overall, the financial position of KATS decreased by \$3,386, as measured by the change in net assets. Current year revenues increased by \$38,211, compared to the prior year. Federal and State grant revenue was up by \$80,384, due to more reimbursable costs being incurred associated with these programs. Local unit in-kind contributions were down by \$34,189, due to a decrease in local effort applied to the projects. Interest income and other revenues were down by \$10,684, due to a decrease in other reimbursable costs being incurred. Current year expenses increased by \$38,467, compared to the prior year due to more reimbursable costs associated with grants and other reimbursements being incurred and less in-kind cost effort being contributed by the local agencies.

The excess of non-reimbursable audit fees over interest and other income caused the decrease in net assets of \$3,386. The audit fees are not allowable as a reimbursable item due to the fact that the organization's total federal expenditures are below the \$500,000 threshold requiring a federal single audit.

**III. Budget Process**

The KATS budget is prepared annually and is contained in the Unified Work Program (UWP) adopted by the Policy Committee and approved by MDOT and the Federal Highway Administration (FHWA). This budget identifies the areas of planning work anticipated to be addressed in the year with estimates of time and resources needed for that work. FHWA, FTA, MDOT, and local agency staffs have input into the budget process so that areas of emphasis can be included. As with any estimate, the areas of planning work may actually demand more or less resources than estimated. If the anticipated changes are significant, the UWP is amended.

The estimated cost rates for wages, fringes, and indirect costs are used for billing reimbursements of program expenses. At the end of the year, actual costs incurred are determined and a final bill adjusting reimbursements to actual is submitted.

The actual costs incurred by KATS along with local matching contributed costs and the amended budget for the fiscal year displayed by grant and work element are included on pages 15 through 18. A comparison of final amended budget to actual displayed by natural expense category is included on page 19. Actual expenses were less than budgeted. The primary reason for this is the fact that one full-time staff position that was budgeted remained vacant until close to the end of the year.

KALAMAZOO AREA TRANSPORTATION STUDY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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**IV. Capital Assets and Long-Term Debt**

Following is a summary of capital assets and accumulated depreciation.

	<u>2006</u>	<u>2005</u>
Equipment and furniture	\$ 18,790	\$ 18,790
Accumulated depreciation	<u>(18,210)</u>	<u>(16,215)</u>
Capital Assets Net of Accumulated Depreciation	<u>\$ 580</u>	<u>\$ 2,575</u>

The capital assets of KATS consist of office furniture and equipment. KATS has implemented a capitalization policy consistent with MDOT and FHWA that requires all items purchased having a useful life in excess of one year and costing more than \$5,000 must be capitalized and depreciated rather than being directly expensed. Currently, there are no plans for future capital asset purchases.

KATS does not have any long-term debt.

**V. Currently Known Facts, Decisions, or Conditions Expected to Have a Significant Effect**

In the past, KATS had the ability to be reimbursed for all allowable costs incurred with administering its grants and programs. Going forward, management does not believe that total program costs will exceed the \$500,000 threshold that would allow for audit fees to be a reimbursable item. To offset the effect of this non-reimbursable expense, a plan will need to be adopted to offset the slow, but inevitable erosion of the organization's financial position.

KALAMAZOO AREA TRANSPORTATION STUDY  
STATEMENTS OF FUND NET ASSETS  
SEPTEMBER 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Due from Kalamazoo County Road Commission	\$ 203,869	\$ 131,105
Contracts receivable	3,702	3,702
Due from Grantors	74,641	62,022
Prepaid expense	1,855	1,895
Equipment and furniture	18,790	18,790
Accumulated depreciation	<u>(18,210)</u>	<u>(16,215)</u>
Total Assets	<u>\$ 284,647</u>	<u>\$ 201,299</u>
LIABILITIES		
Accounts payable	\$ 86,621	\$ 4,691
Due to Grantors	1,881	2,343
Due to local agencies - MTF	2,442	3,763
Compensated absences	32,415	25,828
Advances from local units	<u>45,000</u>	<u>45,000</u>
Total Liabilities	<u>168,359</u>	<u>81,625</u>
NET ASSETS		
Invested in capital assets, net of related debt	580	2,575
Unrestricted	<u>115,708</u>	<u>117,099</u>
Total Net Assets	<u>116,288</u>	<u>119,674</u>
Total Liabilities And Net Assets	<u>\$ 284,647</u>	<u>\$ 201,299</u>

See accompanying notes to financial statements.

KALAMAZOO AREA TRANSPORTATION STUDY  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Federal grants	\$ 266,920	\$ 196,047
State grants	17,020	7,509
Local unit contributions (in-kind)	180,977	212,466
Interest income	4,709	3,291
Other	462	12,564
Total Revenues	<u>470,088</u>	<u>431,877</u>
EXPENSES		
Program development, management, and coordination	97,550	103,746
System surveillance and monitoring	53,787	108,075
Transportation management systems	63,693	72,878
Transportation systems planning and special studies	249,888	143,803
Other	8,556	6,505
Total Expenses	<u>473,474</u>	<u>435,007</u>
Change in Net Assets	(3,386)	(3,130)
Net Assets, beginning	119,674	122,804
Net Assets, ending	<u>\$ 116,288</u>	<u>\$ 119,674</u>

See accompanying notes to financial statements.

KALAMAZOO AREA TRANSPORTATION STUDY  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,386)	\$ (3,130)
Adjustments to reconcile change in net assets to net cash provided by activities		
Depreciation	1,995	3,603
(Increase) decrease in:		
Due from grantors	(12,619)	45,072
Prepaid expense	40	(298)
Decrease (increase) in:		
Accrued expenses	81,930	1,795
Due to Grantors	(462)	(17,538)
Due to local agencies - MTF	(1,321)	1,328
Compensated absences	<u>6,587</u>	<u>2,997</u>
Net Cash Provided (Used) By Operating Activities	72,764	33,829
Cash (due from Kalamazoo County Road Commission), beginning of year	131,105	97,276
Cash (due from Kalamazoo County Road Commission), end of year	<u>\$ 203,869</u>	<u>\$ 131,105</u>

See accompanying notes to financial statements.

KALAMAZOO AREA TRANSPORTATION STUDY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Principles

These financial statements present principally the transactions of the Kalamazoo Area Transportation Study (the Study), which accounts for the use of annually renewable federal and state transportation planning grants.

In accordance with United States of America generally accepted accounting principles and Government Accounting Standards Board Statement (GASB) No. 14, The Financial Reporting Entity, these financial statements represent the Kalamazoo Area Transportation Study. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Kalamazoo Area Transportation Study has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a blended or discretely presented component unit in these financial statements.

In June 1999, the GASB approved Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

Certain of the significant changes in the Statement that affect the Study's reporting include:

- A Management Discussion and Analysis section of the Study's overall financial position and results of operations.

KALAMAZOO AREA TRANSPORTATION STUDY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Principles (continued)

Basis of Accounting

The Study is considered to be a proprietary fund type and as such prepares its financial statements on the full accrual basis of accounting. Costs are recognized in the period in which they are incurred. Revenues are recognized in the period when they are earned or in the period in which the expenditures financed by the revenue are incurred.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$5,000 or more are recorded at cost and depreciated over the estimated useful life of the asset. Maintenance and repairs are expensed when incurred.

Due From Kalamazoo County Road Commission

The balance shown as due from the Kalamazoo County Road Commission represents cash held on behalf of the Kalamazoo Area Transportation Study.

For the purposes of the presentation of the statement of cash flows, the balance due from the Kalamazoo County Road Commission is considered to be equivalent to cash.

Advances From Local Units

Advances from local units represent long-term advances made to the Study for which no terms of repayment have been established.

Cost Allocation for Grant Billing

The Study's policy for allocating costs between common task items (program management and development) is to allocate two thirds of the cost to Section 112 and one third to Section 8.

# KALAMAZOO AREA TRANSPORTATION STUDY NOTES TO FINANCIAL STATEMENTS

## NOTE 2--Amounts Due From/To Grantors

Amounts due from/to grantors consist of the following:

Grant	2006		2005	
	Due From	Due To	Due From	Due To
Federal				
FHWA Section 112	\$ 34,556	\$ -	\$ 36,057	\$ -
OHSP TEPG Funds	-	-	-	462
FTA Section 8	20,623	-	19,248	-
State				
MTF	19,462	1,881	6,717	1,881
Totals	<u>\$ 74,641</u>	<u>\$ 1,881</u>	<u>\$ 62,022</u>	<u>\$ 2,343</u>

## NOTE 3--Functional Allocation of Costs

The costs of providing the various programs have been summarized on a functional basis. Accordingly, certain costs (fringe benefits and indirect costs) have been allocated to the programs based on labor costs. The following schedule presents total expenses provided by the Study and other agencies. All agencies report labor and direct costs to the Study. Only the Study is allowed to charge fringe benefits and indirect costs.

	2006			2005		
	Grant Costs Submitted	Additional Project Effort	Total	Grant Costs Submitted	Additional Project Effort	Total
Kalamazoo Area Transportation Study	\$ 292,496	\$ -	\$ 292,496	\$ 222,541	\$ -	\$ 222,541
Kalamazoo County Road Commission	22,173	26,951	49,124	23,887	33,866	57,753
City of Kalamazoo	50,010	76,992	127,002	20,214	127,579	147,793
City of Portage	1,743	2,093	3,836	2,907	1,803	4,710
County of Kalamazoo and other agencies	453	563	1,016	640	1,570	2,210
	<u>\$ 366,875</u>	<u>\$ 106,599</u>	<u>\$ 473,474</u>	<u>\$ 270,189</u>	<u>\$ 164,818</u>	<u>\$ 435,007</u>

## NOTE 4--Defined Benefit Pension Plan

### Plan Description

The Study's defined benefit pension plan provides retirement, disability and death benefits to plan members and beneficiaries. The Study participates in the Kalamazoo County Employees Retirement System, a Public Employee Retirement System which is an agent multiple-employer plan administered by the



KALAMAZOO AREA TRANSPORTATION STUDY  
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Defined Benefit Pension Plan (continued)

Plan Description (continued)

Kalamazoo County Employees Retirement System. The Kalamazoo County Board of Commissioners establishes and amends the benefit provisions of the participants in the plan. The Kalamazoo County Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the Kalamazoo County Employees Retirement System, 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling 269-384-8111.

Funding Policy

The Study is required to contribute at an actuarially determined rate; the current rate is 0.00% of covered payroll. Employees are currently not required to contribute to the plan. The contribution requirements are established by the Kalamazoo County Employees Retirement System. The contribution requirements of plan members, if any, are established and may be amended by the Study depending on the plan's contribution program.

Annual Pension Cost

For the year ended September 30, 2006, the Study's annual pension cost of \$530 for the plan approximated the Study's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.75% and (b) projected salary increased of 4.5% to 10.8% per year compounded annually, attributable to inflation. The actuarial value of the plan

KALAMAZOO AREA TRANSPORTATION STUDY  
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Defined Benefit Pension Plan (continued)

Annual Pension Cost (continued)

assets was determined on the basis of a market value method with five years smoothing. The amortization method is level percent of payroll, closed period.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12-31-03	\$ 192,645	103.10%	\$ -
12-31-04	\$ 233,231	101.40%	\$ -
12-31-05	\$ 45,570	88.90%	\$ -

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability Entry Age {b}	Unfunded AAL (UAAL) {b-a}	Funded Ratio {a/b}	Covered Payroll {c}	UAAL as a % of Covered Payroll {b-a}/{c}
12-31-03	\$ 16,321,860	\$ 14,385,904	\$ (1,935,956)	113.50%	\$ 2,887,703	-67.00%
12-31-04	\$ 17,756,629	\$ 13,864,504	\$ (3,892,125)	128.10%	\$ 2,963,219	-131.30%
12-31-05	\$ 18,705,616	\$ 14,226,638	\$ (4,478,978)	131.50%	\$ 3,082,788	-145.30%

NOTE 5--Contingent Liability for Interest on Advances

The Study received advances for operating purposes in the amount of \$45,000. The agreements providing the advances (dated 12/09/1982) state that interest earned by the Study on these advances shall be distributed to the contributing agencies. Since inception, to the best of management's knowledge, no interest earned on the advances has been paid to the contributing agencies. The estimated amount of interest earned on the advances has not been determined. Management is currently negotiating this provision of the agreements with the contributing agencies.

KALAMAZOO AREA TRANSPORTATION ST  
NOTES TO FINANCIAL STATEMENTS

NOTE 6--Contingent Liability for Federal and State Grants

The Study has received significant financial assistance from state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the Study.

## **SUPPLEMENTARY INFORMATION**

KALAMAZOO AREA TRANSPORTATION STUDY  
SCHEDULE OF EXPENSES BY FUNDING SOURCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

All Grants Combined

	KATS	Local Match	Project Effort	Supplemental Local Project Effort	Total Effort	Budget
Program Management and Development						
Program Management and Administration	\$ 51,856	\$ 66	\$ 51,922	\$ 93	\$ 52,015	\$ 46,000
Unified Work Program	10,973	28	11,001	38	11,039	20,800
Transportation Improvement Program	9,060	865	9,925	1,217	11,142	25,000
Public Involvement Process	8,416	6,203	14,619	8,735	23,354	36,000
System Surveillance and Monitoring						
Demographic Data Surveillance	318	-	318	-	318	16,000
Highway System Surveillance	7,328	4,868	12,196	5,704	17,900	34,895
Transit System Surveillance	-	11,358	11,358	24,211	35,569	8,898
Management Systems						
Pavement Management System	724	408	1,132	478	1,610	23,001
Asset Management	17,020	2,442	19,462	2,679	22,141	20,000
Bridge Management System	-	2,583	2,583	3,029	5,612	5,001
Safety Management System	21,685	1,117	22,802	1,308	24,110	33,001
UD-10 Coding System	9,713	-	9,713	-	9,713	8,900
Congestion Management System	-	232	232	271	503	16,500
Public Transportation Management System	-	1	1	3	4	7,000
Intermodal Management System	-	-	-	-	-	5,700
Systems Planning and Analysis						
Transportation Plan	56,792	1,400	58,192	1,973	60,165	62,000
Transit System Analysis	85,944	18,170	104,114	38,735	142,849	140,000
Highway System Analysis	-	9,868	9,868	11,565	21,433	10,000
Special Studies	208	3,695	3,903	4,330	8,233	20,000
Traffic Impact/Access Management	199	421	620	493	1,113	40,000
Air Quality	3,704	1,482	5,186	1,737	6,923	18,000
Subtotals	<u>283,940</u>	<u>65,207</u>	<u>349,147</u>	<u>106,599</u>	<u>455,746</u>	<u>596,696</u>
Cash Match						
Transit System Analysis	-	9,172	9,172	-	9,172	30,000
FY 05 Audit cost	8,556	-	8,556	-	8,556	-
Subtotals	<u>8,556</u>	<u>9,172</u>	<u>17,728</u>	<u>-</u>	<u>17,728</u>	<u>30,000</u>
Totals	<u>\$ 292,496</u>	<u>\$ 74,379</u>	<u>\$ 366,875</u>	<u>\$ 106,599</u>	<u>\$ 473,474</u>	<u>\$ 626,696</u>

KALAMAZOO AREA TRANSPORTATION STUDY  
SCHEDULE OF EXPENSES BY FUNDING SOURCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Grant - FHWA Section 112, 85196  
(81.85%, 18.15%)

	<u>KATS</u>	<u>Local Match</u>	<u>Project Effort</u>	<u>Supplemental Local Project Effort</u>	<u>Total Effort</u>	<u>Budget</u>
Program Management and Development						
Program Management and Administration	\$ 36,549	\$ 50	\$ 36,599	\$ 58	\$ 36,657	\$ 32,200
Unified Work Program	7,681	21	7,702	24	7,726	14,560
Transportation Improvement Program	6,342	652	6,994	764	7,758	17,500
Public Involvement Process	5,891	4,677	10,568	5,481	16,049	25,200
System Surveillance and Monitoring						
Demographic Data Surveillance	318	-	318	-	318	16,000
Highway System Surveillance	7,328	4,868	12,196	5,704	17,900	34,895
Management Systems						
Pavement Management System	724	408	1,132	478	1,610	23,001
Bridge Management System	-	2,583	2,583	3,029	5,612	5,001
Safety Management System	21,685	1,117	22,802	1,308	24,110	33,001
UD-10 Coding System	9,713	-	9,713	-	9,713	8,900
Congestion Management System	-	232	232	271	503	16,500
Intermodal Management System	-	-	-	-	-	5,700
Systems Planning and Analysis						
Transportation Plan	40,027	1,054	41,081	1,236	42,317	43,400
Highway System Analysis	-	9,868	9,868	11,565	21,433	10,000
Special Studies	208	3,695	3,903	4,330	8,233	20,000
Traffic Impact/Access Management	199	421	620	493	1,113	40,000
Air Quality	3,704	1,482	5,186	1,737	6,923	18,000
Totals	<u>\$ 140,369</u>	<u>\$ 31,128</u>	<u>\$ 171,497</u>	<u>\$ 36,478</u>	<u>\$ 207,975</u>	<u>\$ 363,858</u>

KALAMAZOO AREA TRANSPORTATION STUDY  
SCHEDULE OF EXPENSES BY FUNDING SOURCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Grant - FTA Section 8, 5303 85183  
(80%, 20%)

	<u>KATS</u>	<u>Local Match</u>	<u>Project Effort</u>	<u>Supplemental Local Project Effort</u>	<u>Total Effort</u>	<u>Budget</u>
Program Management and Development						
Program Management and Administration	\$ 15,307	\$ 16	\$ 15,323	\$ 35	\$ 15,358	\$ 13,800
Unified Work Program	3,292	7	3,299	14	3,313	6,240
Transportation Improvement Program	2,718	213	2,931	453	3,384	7,500
Public Involvement Process	2,525	1,526	4,051	3,254	7,305	10,800
System Surveillance and Monitoring						
Transit System Surveillance	-	11,358	11,358	24,211	35,569	8,898
Management Systems						
Public Transportation Management System	-	1	1	3	4	7,000
Systems Planning and Analysis						
Transportation Plan	16,765	346	17,111	737	17,848	18,600
Transit System Analysis	85,944	18,170	104,114	38,735	142,849	140,000
Subtotals	<u>126,551</u>	<u>31,637</u>	<u>158,188</u>	<u>67,442</u>	<u>225,630</u>	<u>212,838</u>
Cash Match						
Transit System Analysis	-	9,172	9,172	-	9,172	30,000
Subtotals	<u>-</u>	<u>9,172</u>	<u>9,172</u>	<u>-</u>	<u>9,172</u>	<u>30,000</u>
Totals	<u>\$ 126,551</u>	<u>\$ 40,809</u>	<u>\$ 167,360</u>	<u>\$ 67,442</u>	<u>\$ 234,802</u>	<u>\$ 242,838</u>

KALAMAZOO AREA TRANSPORTATION STUDY  
SCHEDULE OF EXPENSES BY FUNDING SOURCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Grant - MTF FY06 Asset Management

	<u>KATS</u>	<u>Local Reimbursable Match</u>	<u>Project Effort</u>	<u>Supplemental Local Project Effort</u>	<u>Total Effort</u>	<u>Budget</u>
Management Systems						
Asset Management	\$ 17,020	\$ 2,442	\$ 19,462	\$ 2,679	\$ 22,141	\$ 20,000
Totals	<u>\$ 17,020</u>	<u>\$ 2,442</u>	<u>\$ 19,462</u>	<u>\$ 2,679</u>	<u>\$ 22,141</u>	<u>\$ 20,000</u>



KALAMAZOO AREA TRANSPORTATION STUDY  
SCHEDULE OF BUDGETED AND ACTUAL COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

<u>Costs</u>	<u>Budget</u>	<u>Percent</u>	<u>Actual</u>	<u>Percent</u>
Direct salaries	\$ 199,733	100.00%	\$ 117,797	100.00%
Fringe benefits:				
Annual leave	11,584		9,400	
Sick leave	9,300		8,029	
Emergency leave	661		443	
Holiday leave	6,607		4,747	
Social security	15,279		10,159	
Health insurance	42,104		20,005	
Dental insurance	4,187		2,239	
Optical insurance	449		291	
Life insurance	1,822		1,538	
Retirement	13,897		530	
Workers' compensation	1,997		246	
Subtotal	107,887	54.02%	57,627	48.92%
Indirect cost allocation base	307,620	100.00%	175,424	100.00%
Indirect costs:				
Office space	1,000		1,000	
Equipment	5,000		-	
Accounting services	500		-	
Legal services	5,000		885	
Legal notices	800		458	
Secretarial services	250		-	
Postage	3,000		2,387	
Copy cost	2,500		968	
Printing	1,500		719	
Supplies	2,500		3,046	
Telephone	1,500		872	
Equipment maintenance and repair	900		-	
Insurances	5,000		-	
Computer software	6,500		3,455	
Memberships	300		70	
Subscriptions	750		843	
Travel	1,500		2,434	
Educational/professional development	1,500		50	
Conferences	2,000		4,005	
Student employee education	500		-	
Website	1,200		592	
Depreciation	3,700		1,994	
Subtotal	47,400	15.41%	23,778	13.55%
Direct costs	262,873		84,738	
Total allowable and allocable costs	617,893		283,940	
Cash Match:				
Audit cost	8,800		8,556	
Total Cash Match	8,800		8,556	
Total Costs	\$ 626,693		\$ 292,496	

Note: This schedule presents only costs incurred by KATS and does not include the costs of any other local agency.



**Gardner | Provenzano  
Schauman & Thomas**

**CERTIFIED PUBLIC ACCOUNTANTS**

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

November 22, 2006

To the Policy Committee  
Kalamazoo Area Transportation Study  
Kalamazoo, Michigan

We have audited the financial statements of the Kalamazoo Area Transportation Study as of and for the years ended September 30, 2006 and 2005 and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

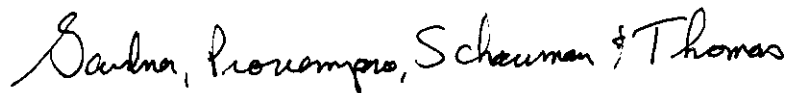
As part of obtaining reasonable assurance about whether the Kalamazoo Area Transportation Study's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

To the Policy Committee  
Kalamazoo Area Transportation Study  
Kalamazoo, Michigan  
November 22, 2006  
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kalamazoo Area Transportation Study's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the Policy Committee of the Kalamazoo Area Transportation Study. However, this report is a matter of public record and its distribution is not limited.



Certified Public Accountants



# Gardner | Provenzano Schauman & Thomas

**CERTIFIED PUBLIC ACCOUNTANTS**

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

December 5, 2006

Policy Committee  
Kalamazoo Area Transportation Study  
3801 East Kilgore Road  
Kalamazoo, Michigan 49001

In planning and performing our audit of the financial statements of Kalamazoo Area Transportation Study for the year ended September 30, 2006, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during the course of our audit procedures we became aware of certain matters that are opportunities for strengthening controls and operating efficiency and we believe are in need of management's attention. This letter does not affect our report dated November 22, 2006, on the financial statements of Kalamazoo Area Transportation Study.

These matters pertain to future operations and prior year activities and are summarized as follows.

## Expense Activity

The Kalamazoo County Road Commission processes all of the Kalamazoo Area Transportation Study's receipts and disbursements and holds the agency's cash balance. A review of the expense activity revealed that an expense of the Road Commission was inadvertently charged against the Study's account. Although the amount of the misallocation is not significant, it is vital that the activity charged against the Study's account is verified and is actually an expense of the Study.

## Cost Distribution Summary

The Study compiles its costs (wages, fringes, indirect and direct costs) by work item in a Lotus 1-2-3 spreadsheet. Also included in this spreadsheet by work item are contributed costs of the other participating agencies. Information included in this spreadsheet is used to bill the Federal and State agencies for reimbursement under the grants approved for the

fiscal year. Considerable time was spent identifying and correcting the formulas included in the spreadsheet to agree monthly detail costs with monthly summary costs. To improve efficiency, the monthly detail costs should be compared to the monthly summary of costs and the format and formulas adjusted as necessary as the year progresses.

#### Contingent Liability For Interest On Advances

As we have discussed on many occasions, the Study has recorded on its books, a liability to three organizations that provided loans to initiate the existence of Kalamazoo Area Transportation Study. The underlying loan documents require interest payments to the three organizations.

The potential for these three enabling organizations to enforce the provisions of the loan documents is discussed in Note 5 of the audited financial statements as a contingent liability.

We are aware that the issue has been discussed with the City of Portage, however, we are not aware that a resolution has been reached. In addition, we are not aware of any discussion or resolution with the City of Kalamazoo or the Kalamazoo County Road Commission regarding this issue. We suggest that all the parties to the agreements be assembled with the intent of discussing and resolving the costs and benefits of either enforcing or amending the existing loan documents.

#### Excess of Non-reimbursable Expenses Over Other Income

Due to the non-reimbursable nature of certain expenses, the Study will likely experience an annual decline in equity. Unless additional revenue is generated the Study will eventually become insolvent.

While this issue does not appear to be of immediate urgency, the Study should be aware of the possible consequences of failing to act in a timely manner.

We suggest that the Study discuss this likelihood of future deterioration of Net Assets and consider alternative sources of revenue to compensate for expenses that are not otherwise reimbursable.

#### Old Receivables and Payables

In analyzing the components of amounts due from grantors and contracts, and the components of amounts due to grantors related to billing adjustments, we noted that some of these have been inactive from as far back as September 2002 and September 2003.

Policy Committee  
Kalamazoo Area Transportation Study  
December 5, 2006  
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For reasons that are obvious, the more time that passes, the more difficult it becomes to collect outstanding receivables.

We recommend that increased efforts be made to follow up on collection of amounts due to the Study and making payment for amounts owed by KATS for prior years.

We will be pleased to discuss these comments in further detail, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Frederick C. Gardner